

**CITY OF AUDUBON**  
**INDEPENDENT AUDITORS' REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2014**

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**City of Audubon**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January)</b>		
Clark Kauffman	Mayor	January 2016
Delyte Borkowski	Council Member	January 2014
Andy Griffith	Council Member	January 2014
Teresa Murray	Council Member	January 2014
Robert Jacobsen	Council Member	January 2016
John Whetzal	Council Member	January 2016
Lora Hansen	City Clerk	Indefinite
Lance Levis	Attorney	Indefinite
<b>(After January)</b>		
Clark Kauffman	Mayor	January 2016
Jason Hocker	Council Member	January 2018
Tom Nielsen	Council Member	January 2018
Teresa Murray	Council Member	January 2018
Robert Jacobsen	Council Member	January 2016
John Whetzal	Council Member	January 2016
Joseph Foran	City Clerk	Indefinite
David Wiederstein	Attorney	Indefinite

**City of Audubon**



Diane McGrain, CPA  
Jim Menard, CPA

November 18, 2014

### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Audubon, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Continued...

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Audubon as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Audubon's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 28 through 29 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014 on our consideration of City of Audubon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Audubon's internal control over financial reporting and compliance.

*Schroeder & Associates, PC*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Audubon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2014 FINANCIAL HIGHLIGHTS**

The City's total receipts for governmental activities decreased approximately \$514,000, from fiscal year 2013 to 2014. Note proceeds decreased \$451,000, tax increment financing receipts increased \$52,000, property tax receipts decreased \$125,000, and local option sales tax receipts decreased \$6,000.

Disbursements of the City's governmental activities increased approximately \$189,000 from fiscal year 2013 to 2014. Public safety increased \$180,000, public works decreased \$41,000 and capital projects decreased \$98,000.

The City's total cash basis net position decreased approximately \$389,000 from June 30, 2013 to June 30, 2014. Of this amount, the net position of governmental activities decreased approximately \$507,000 and the net position of the business type activities increased approximately \$118,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.
- Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principals. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: General Fund, Special Revenue Funds, (such as Road Use Tax and Local Option Sales Tax), Debt Service Fund and the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$1,213,449 to \$705,765. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 268	272
Operating grants, contributions and restricted interest	289	282
Capital grants, contributions and restricted interest	20	-
General receipts:		
Property tax	701	826
Tax increment financing	96	44
Local option sales tax	169	175
Grants and contributions not restricted to specific purposes	3	4
Unrestricted interest on investments	1	1
Note proceeds	158	609
Other general receipts	48	54
Total receipts	1,753	2,267
Disbursements:		
Public safety	544	364
Public works	736	777
Health and social services	1	1
Culture and recreation	361	277
Community and economic development	91	49
General government	115	120
Debt service	201	174
Capital projects	211	309
Total disbursements	2,260	2,071
Change in cash basis net position before transfers	(507)	196
Transfers, net	-	50
Change in cash basis net position	(507)	246
Cash basis net position beginning of year	1,213	967
Cash basis net position end of year	706	1,213

Total governmental activities receipts for the fiscal year were approximately \$1,752,000 compared to \$2,267,000 last year. This decrease was due to the decrease in bond proceeds and a decrease in property tax monies.

The cost of all governmental activities this year was approximately \$2,260,000 compared to \$2,071,000 last year. This increase was due primarily to increases in insurance costs and some project costs for pool repair, library elevator repair, and water tower repairs.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 220	235
Sewer	385	399
Other miscellaneous receipts	39	39
Total receipts	644	673
Disbursements:		
Water	197	208
Sewer	329	365
Total disbursements	526	573
Change in cash basis net position before transfers	118	100
Transfers, net	-	(50)
Change in cash basis net position	118	50
Cash basis net position beginning of year	152	102
Cash basis net position end of year	\$ 270	152

Total business type activities charges for service receipts for the fiscal year were approximately \$ 605,000 compared to \$ 634,000 last year. The cash balance increased approximately \$118,000 from the prior year. The increase was primarily due to decreased expenses resulting from existing water and sewer projects finishing and new projections not beginning.

The business-type activities receipts decreased by approximately \$29,000. Expenditures decreased by approximately \$47,000.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Audubon completed the year, its governmental funds reported a combined fund balance of \$705,765, a decrease of \$507,684 from last year's balance of \$1,213,449. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$183,198 to \$307,250. This decrease is primarily due to more expenses for pool maintenance, a major elevator repair at the library, and an increase in insurance costs coming out of this fund were more than what was expected.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$6,167 to (\$17,916). The decrease is due to a majority of the street expenses coming out of this fund rather than the Local Option Sales Tax Fund.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$11,281 to \$42,877. The decrease is due to an increase in IPERS and health insurance expenses.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased \$2,405 to \$266,661.
- The Debt Service Fund decreased \$91,373 to (\$76,365). The decrease is due to increases in the principal payments due on many of the outstanding bonds.
- The Capital Projects Fund cash balance decreased \$191,210 to \$295,238. The decrease is due to completion of many projects for which costs were not incurred until this fiscal year.

- The Permanent Fund, Cemetery Trust cash balance increased \$6,400 to \$120,237.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance increased \$56,539 to \$203,497, due primarily to a decrease in new projects being undertaken.

The Sewer Fund cash balance increased \$62,074 to \$66,888 due primarily to the sewer rate increase in 2012 and the reduced amount of interest payments due for the fiscal year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved June 23, 2014 and resulted in an increase in receipts of \$4,000 and in disbursements of \$139,000. The increase was primarily for a major repair needed to the Library elevator and the purchase of a new pumper truck for the fire department.

The City's receipts were \$72,788 more than budgeted. This was due to the raise in sewer rates and increase in local options tax received.

With the amendment, total disbursements were \$177,820 more than budgeted. The actual disbursements for capital projects were \$211,210 more than the amended budget due to the water tower project completion and final payment.

## DEBT ADMINISTRATION

At June 30, 2014 the City had approximately \$3,238,000 in long term debt outstanding, compared to \$3,434,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	Year ended June 30,	
	2014	2013
General obligation notes	\$ 1,883	1,880
Urban renewal tax increment financing revenue notes	-	70
Revenue notes	1,355	1,484
	<u>\$ 3,238</u>	<u>3,434</u>

The Constitution of the State of Iowa limits the general obligation debt cities can issue to 5% of the assessed value of all taxable property with the City's corporate limits. The City's outstanding general obligation debt of approximately \$1.9 million is below the constitutional debt limit of \$3.5 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees charged for various City activities. The increase in costs of vehicles, gas, insurance, and healthcare are all variable from one year to the next. The State's roll back of property valuations creates a strain on finances of all local municipalities. The balance between wants and needs of a community with aging infrastructure are all taken into consideration when setting tax rates and other fees.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact Joseph Foran, City Clerk, 410 North Park Place, Audubon, Iowa 50025.

**City of Audubon**  
**Basic Financial Statements**

City of Audubon  
Cash Basis Statement of Activities and Net Position  
As of and for the year ended June 30, 2014

		Program Receipts			Net (Disbursement) Receipts and Changes in Cash Basis Net Position		
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest			
	Disbursements	Charges for Service	Interest	Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
Governmental activities:							
Public safety	\$ 544,006	956	15,589	-	(527,461)	-	(527,461)
Public works	736,329	206,647	218,515	-	(311,167)	-	(311,167)
Health and social services	1,000	-	-	-	(1,000)	-	(1,000)
Culture and recreation	361,476	53,916	37,520	-	(270,040)	-	(270,040)
Community and economic development	91,359	3,807	3,845	20,000	(63,707)	-	(63,707)
General government	114,714	2,106	13,339	-	(99,269)	-	(99,269)
Debt service	200,914	-	-	-	(200,914)	-	(200,914)
Capital projects	211,210	-	-	-	(211,210)	-	(211,210)
Total governmental activities	2,261,008	267,432	288,808	20,000	(1,684,768)	-	(1,684,768)
Business type activities:							
Water	197,400	220,370	-	-	-	22,970	22,970
Sewer	328,774	384,952	-	-	-	56,178	56,178
Total business type activities	526,174	605,322	-	-	-	79,148	79,148
Total	\$ 2,787,182	872,754	288,808	20,000	(1,684,768)	79,148	(1,605,620)
<b>General Receipts:</b>							
Property tax levied for:							
General purposes					396,582	-	396,582
Employee benefits					194,783	-	194,783
Debt service					109,541	-	109,541
Tax increment financing					96,274	-	96,274
Local option sales tax					168,502	-	168,502
Grants and contributions not restricted to specific purpose					3,464	-	3,464
Unrestricted interest on investments					1,490	143	1,633
Miscellaneous					37,198	39,322	76,520
Sale of assets					11,250	-	11,250
Note proceeds					158,000	-	158,000
Total general receipts					1,177,084	39,465	1,216,549
Change in cash basis net position					(507,684)	118,613	(389,071)
Cash basis net position beginning of year					1,213,449	151,772	1,365,221
Cash basis net position end of year					\$ 705,765	270,385	976,150
<b>Cash Basis Net Position</b>							
Restricted:							
Nonexpendable							
Cemetery perpetual care					\$ 120,237	-	120,237
Expendable							
Employee benefits					42,877	-	42,877
Street construction and repair					266,661	-	266,661
Debt service					-	55,624	55,624
Capital projects					295,238	-	295,238
Other purposes					46,063	-	46,063
Unrestricted					(65,311)	214,761	149,450
Total cash basis net position					\$ 705,765	270,385	976,150

See notes to financial statements

City of Audubon  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and for the year ended June 30, 2014

	General	Special Revenue			Debt Service	Capital Projects	Permanent		Total
		Road Use Tax	Employee Benefits	Local Option Sales Tax			Cemetery Trust	Nonmajor	
Receipts:									
Property tax	\$ 373,822	-	183,574	-	103,683	-	-	-	661,079
Tax increment financing collections	-	-	-	-	-	-	-	96,274	96,274
Other city tax	22,760	-	11,209	168,502	5,858	-	-	-	208,329
Licenses and permits	2,106	-	-	-	-	-	-	-	2,106
Use of money and property	19,921	-	-	-	-	-	-	63	19,984
Intergovernmental	46,898	217,279	-	-	-	20,000	-	-	284,177
Charges for service	244,713	-	-	-	-	-	-	-	244,713
Special assessments	-	-	-	-	-	-	-	3,807	3,807
Miscellaneous	55,569	251	-	985	-	-	6,400	11,650	74,855
Total receipts	765,789	217,530	194,783	169,487	109,541	20,000	6,400	111,794	1,595,324
Disbursements:									
Operating:									
Public safety	448,947	-	95,059	-	-	-	-	-	544,006
Public works	175,488	223,697	87,212	171,892	-	-	-	78,040	736,329
Health and social services	1,000	-	-	-	-	-	-	-	1,000
Culture and recreation	355,342	-	6,134	-	-	-	-	-	361,476
Community and economic development	29,155	-	-	-	-	-	-	62,204	91,359
General government	97,055	-	17,659	-	-	-	-	-	114,714
Debt service	-	-	-	-	200,914	-	-	-	200,914
Capital projects	-	-	-	-	-	211,210	-	-	211,210
Total disbursements	1,106,987	223,697	206,064	171,892	200,914	211,210	-	140,244	2,261,008
Deficiency of receipts under disbursements	(341,198)	(6,167)	(11,281)	(2,405)	(91,373)	(191,210)	6,400	(28,450)	(665,684)
Other financing sources:									
Note proceeds	158,000	-	-	-	-	-	-	-	158,000
Total other financing sources	158,000	-	-	-	-	-	-	-	158,000
Change in cash balances	(183,198)	(6,167)	(11,281)	(2,405)	(91,373)	(191,210)	6,400	(28,450)	(507,684)
Cash balances beginning of year	490,448	(11,749)	54,158	269,066	15,008	486,448	113,837	(203,767)	1,213,449
Cash balances end of year	\$ 307,250	(17,916)	42,877	266,661	(76,365)	295,238	120,237	(232,217)	705,765
<b>Cash Basis Fund Balances</b>									
Nonexpendable - cemetery perpetual care	\$ -	-	-	-	-	-	120,237	-	120,237
Restricted for									
Streets	-	-	-	266,661	-	-	-	-	266,661
Employee benefits	-	-	42,877	-	-	-	-	-	42,877
Capital projects	-	-	-	-	-	295,238	-	-	295,238
Other purposes	-	-	-	-	-	-	-	46,063	46,063
Assigned for park projects	143,334	-	-	-	-	-	-	-	143,334
Unrestricted	163,916	(17,916)	-	-	(76,365)	-	-	(278,280)	(208,645)
Total cash basis fund balances	\$ 307,250	(17,916)	42,877	266,661	(76,365)	295,238	120,237	(232,217)	705,765

See notes to financial statements

City of Audubon  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 220,370	384,952	605,322
Operating disbursements:			
Business type activities	197,400	170,054	367,454
Excess of operating receipts over operating disbursements	22,970	214,898	237,868
Non-operating receipts (disbursements)			
Interest on investments	21	122	143
Miscellaneous	33,548	5,774	39,322
Debt service	-	(158,720)	(158,720)
Net non-operating receipts (disbursements)	33,569	(152,824)	(119,255)
Change in cash balances	56,539	62,074	118,613
Cash balances beginning of year	146,958	4,814	151,772
Cash balances end of year	\$ 203,497	66,888	270,385
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ -	55,624	55,624
Unrestricted	203,497	11,264	214,761
Total cash basis fund balances	\$ 203,497	66,888	270,385

See notes to financial statements

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (1) Summary of Significant Accounting Policies**

The City of Audubon is a political subdivision of the State of Iowa located in Audubon County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Audubon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City representatives are members of the following boards and commissions: Audubon County Assessor's Conference Board, Audubon County Emergency Management Commission, Audubon County E911 Board, Audubon County Solid Waste Management Commission and Audubon County Airport Authority.

**B. Basis of Presentation**

**Government-wide Financial Statements** - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**B. Basis of Presentation - Continued**

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net position* result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund accounts for the tax levy to support City employee benefits.

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**B. Basis of Presentation - Continued**

The Local Option Sales Tax Fund is used to account for the receipts from the tax authorized by referendum and used for street construction and repairs.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of principal and interest on the City's general long term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through the Enterprise Funds.

The Permanent Fund – Cemetery Trust is used to report resources that are legally restricted to the extent that only earnings and not principal may be used for cemetery care.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Audubon maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (1) Summary of Significant Accounting Policies – Continued**

C. Measurement Focus and Basis of Accounting- Continued

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amount budgeted in the public safety, culture and recreation, community and economic development, debt service, and the capital projects functions.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2012, to compute the amounts which became liens on property on July 1, 2013. These taxes were due and payable in two installments on September 30, 2013 and March 31, 2014, at the Audubon County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$976,150.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (3) Bonds and Notes Payable**

Annual debt service requirements to maturity of general obligation bonds and notes, urban renewal tax increment financing revenue bonds, and revenue notes are as follows:

Year Ended June 30,	General Obligation Bonds		Revenue Notes		Total	
		Principal		Principal		Principal
2015	\$	174,000	\$	133,000	\$	307,000
2016		179,000		138,000		317,000
2017		130,000		142,000		272,000
2018		135,000		146,000		281,000
2019		136,000		150,000		286,000
2020-2024		714,000		646,000		1,360,000
2025-2027		415,000		-		415,000
Total	\$	1,883,000	\$	1,355,000	\$	3,238,000

Year Ended June 30,	Interest		Interest		Interest	
2015	\$	41,841	\$	23,713	\$	65,554
2016		34,892		21,386		56,278
2017		31,387		18,969		50,356
2018		29,672		16,485		46,157
2019		27,627		13,930		41,557
2020-2024		85,538		28,700		114,238
2025-2027		35,274		-		35,274
Total	\$	286,231	\$	123,183	\$	409,414

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$3,486,000 which was not exceeded during the year ended June 30, 2014.

General Obligation Refunding Notes

On October 10, 2012, the City issued \$965,000 of general obligation refunding notes with interest rates ranging from 0.75% to 2.05% per annum. These refunding notes were placed in escrow to refund \$830,000 of general obligation notes issued September 11, 2008, on June 1, 2015. The escrow balance and refunded debt outstanding are not reflected in the City's financial statements.

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (3) Bonds and Notes Payable - Continued**

Urban Renewal Tax Increment Financing Revenue Bonds

The City issued \$620,000 of urban renewal tax increment financing revenue bonds in January 2004 for the purpose of defraying a portion of the costs of various construction and refurbishing projects within the urban renewal district. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the bonds. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the bonds is \$0. For the current year, principal and interest paid and total TIF receipts were \$72,800 and \$96,274, respectively.

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,066,000 in sewer revenue notes issued in September 2002, and \$600,000 in sewer revenue notes issued in December 2003. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2023. Annual principal and interest payments on the notes were more than 70 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$1,478,183. For the current year, principal and interest paid and total customer net receipts were \$158,720 and \$214,898, respectively. During the year, the revenue notes were refinanced to reduce the interest rates from 3% to 1.75%. The rate change resulted in a cash flow savings of \$102,800.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The resolution providing for the issuance of the \$600,000 revenue note includes the additional provision:

- c) Additional monthly transfers of 25% of the amount required to be deposited in the sewer sinking account shall be made to the sewer reserve account until a specific minimum balance has been accumulated. The account is reserved for payment of principal and interest should the sinking account have insufficient money available.

The City's net sewer receipts were sufficient to service operations and debt service requirements.

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012, were \$42,013, \$42,796, and \$40,119, respectively, equal to the required contributions for each year.

**NOTE (5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2014, primarily relating to the General and Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$13,500

The liability has been computed based on rates of pay as of June 30, 2014.

**NOTE (6) Commitments**

Cemetery Contracts – The City has contracted for the upkeep of one cemetery through March 2015, for an annual cost of \$10,089, and mowing of another cemetery through March 2015, for an annual cost of \$15,796.

City Mowing Contract – The City has contracted for the upkeep of City grounds through February 2015, for an annual cost of \$12,174.

Water and Wastewater Operation Contract – The City has contracted for operations of the waterworks and wastewater treatment facilities through December 31, 2017 for an approximate annual cost of \$137,000, to be adjusted each April for inflation.

Solid Waste and Recyclables Hauling Contract – The City has contracted for solid waste and recyclable pickup within the City for a monthly cost of \$8,317 through December 2016.

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (7) Risk Management**

The City of Audubon is exposed to various risks of loss related to torts: theft, damage to and destruction of assets; errors and omission; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liabilities for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE (8) Deficit Fund Balance**

At June 30, 2014, the City had the following deficit balances:

Special Revenue Fund:	
Road Use Tax	\$ 17,916
Urban Renewal Tax Increment	76,365
Debt Service	<u>278,280</u>
	\$ <u>372,561</u>

The Road Use Tax Fund deficit will be eliminated with road use tax collections.

The Debt Service Fund deficit will be eliminated with collection of property taxes.

The Urban Renewal Tax Increment Fund deficit will be eliminated with the receipts from tax increment financing collections.

**NOTE (9) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 9 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$754 for single coverage and \$1,666 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2014, there were no plan members eligible for benefits.

City of Audubon  
Notes to Financial Statements  
June 30, 2014

**NOTE (10) Construction Commitments**

As of June 30, 2014, the City has a balance of \$8,415 remaining on contracts for a water improvement project. Retainage of \$1,915 is included in this balance.

**NOTE (11) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

## Other Information

City of Audubon  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds  
 Other Information  
 Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts						
Property tax	\$ 661,079	-	661,079	678,112	678,112	(17,033)
Tax increment financing collections	96,274	-	96,274	104,000	108,000	(11,726)
Other city tax	208,329	-	208,329	180,211	180,211	28,118
Licenses and permits	2,106	-	2,106	5,200	5,200	(3,094)
Use of money and property	19,984	143	20,127	20,950	20,950	(823)
Intergovernmental	284,177	-	284,177	212,000	212,000	72,177
Charges for service	244,713	605,322	850,035	827,600	827,600	22,435
Special assessments	3,807	-	3,807	-	-	3,807
Miscellaneous	74,855	39,322	114,177	135,250	135,250	(21,073)
Total receipts	1,595,324	644,787	2,240,111	2,163,323	2,167,323	72,788
Disbursements						
Public safety	544,006	-	544,006	374,180	479,180	(64,826)
Public works	736,329	-	736,329	795,964	795,964	59,635
Health and social services	1,000	-	1,000	2,000	2,000	1,000
Culture and recreation	361,476	-	361,476	312,275	337,275	(24,201)
Community and economic development	91,359	-	91,359	29,155	29,155	(62,204)
General government	114,714	-	114,714	138,325	138,325	23,611
Debt service	200,914	-	200,914	185,018	194,018	(6,896)
Capital projects	211,210	-	211,210	-	-	(211,210)
Business type activities	-	526,174	526,174	633,445	633,445	107,271
Total disbursements	2,261,008	526,174	2,787,182	2,470,362	2,609,362	(177,820)
Excess (deficiency) of receipts over (under) disbursements	(665,684)	118,613	(547,071)	(307,039)	(442,039)	(105,032)
Other financing sources, net:	158,000	-	158,000	-	-	158,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(507,684)	118,613	(389,071)	(307,039)	(442,039)	52,968
Balances beginning of year	1,213,449	151,772	1,365,221	850,763	850,763	514,458
Balances end of year	\$ 705,765	270,385	976,150	543,724	408,724	567,426

See accompanying independent auditors' report

City of Audubon  
Notes to Other Information – Budgetary Reporting  
June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$4,000 and budget disbursements by \$139,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amended budgeted amounts in the public safety, culture and recreation, community and economic development, debt service, and capital projects functions.

## Supplementary Information

City of Audubon  
Schedule of Cash Receipts, Disbursements, and Changes in  
Cash Balances - Nonmajor Governmental Funds  
Year ended June 30, 2014

	Special Revenue		
	Urban		
	Renewal Tax	Cemetery	
	Increment	Trust	Total
Receipts			
Tax increment financing collections	\$ 96,274	-	96,274
Use of money and property	-	63	63
Special assessments	3,807	-	3,807
Miscellaneous	11,250	400	11,650
Total receipts	111,331	463	111,794
Disbursements:			
Public works	78,040	-	78,040
Community and economic development	62,204	-	62,204
Total disbursements	140,244	-	140,244
Change in cash balances	(28,913)	463	(28,450)
Cash balances beginning of year	(249,367)	45,600	(203,767)
Cash balances end of year	\$ (278,280)	46,063	(232,217)
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Cemetery	\$ -	46,063	46,063
Unrestricted	(278,280)	-	(278,280)
Total cash basis fund balances	\$ (278,280)	46,063	(232,217)

See accompanying independent auditors' report

City of Audubon  
Schedule of Indebtedness  
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds and notes:									
Equipment	Sept 26, 2007	4.25-4.30%	\$ 350,000	145,000		45,000	100,000	6,165	-
Streetscape	Sept 11, 2008	4.88%	1,320,000	165,000		80,000	85,000	8,044	-
Capital Loan Notes	Oct 10, 2012	2.20-2.55%	620,000	620,000		10,000	610,000	15,093	-
Refunding Notes	Oct 10, 2012	0.75-2.05%	965,000	950,000		20,000	930,000	13,960	-
Essential Corporate Purpose	Aug 27, 2013	3.00%	158,000	-	158,000	-	158,000	3,608	-
				1,880,000	158,000	155,000	1,883,000	46,870	-
Urban renewal tax increment financing (TIF) revenue bonds	Jan 1, 2004	4.00%	\$ 620,000	70,000	-	70,000	-	2,800	-
Revenue notes:									
Sewer	Sep 15, 2002	1.75%	\$ 2,066,000	1,184,000	-	103,000	1,081,000	20,720	-
Sewer	Dec 12, 2003	1.75%	600,000	300,000	-	26,000	274,000	9,000	-
Total				1,484,000	-	129,000	1,355,000	29,720	-

See accompanying independent auditors' report

**City of Audubon**  
**Bond and Note Maturities**  
**June 30, 2014**

Year Ending June 30,	General Obligation Bonds and Notes									
	Equipment		Streetscape		Capital Loan Notes		Refunding Notes		Essential Corporate Purpose	
	Issued Sept 26, 2007		Issued Sept 11, 2008		Issued Oct 10, 2012		Issued Oct 10, 2012		Issued Aug 27, 2013	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2015	4.25%	\$ 50,000	4.88%	\$ 85,000	2.20%	\$ 5,000	0.75%	\$ 20,000	3.00%	\$ 14,000
2016	4.30%	50,000	-	-	2.20%	5,000	0.75%	110,000	3.00%	14,000
2017	-	-	-	-	2.20%	5,000	1.05%	110,000	3.00%	15,000
2018	-	-	-	-	2.20%	10,000	1.25%	110,000	3.00%	15,000
2019	-	-	-	-	2.20%	10,000	1.45%	110,000	3.00%	16,000
2020	-	-	-	-	2.20%	5,000	1.60%	115,000	3.00%	16,000
2021	-	-	-	-	2.20%	10,000	1.80%	115,000	3.00%	16,000
2022	-	-	-	-	2.20%	5,000	1.95%	120,000	3.00%	17,000
2023	-	-	-	-	2.20%	10,000	2.05%	120,000	3.00%	17,000
2024	-	-	-	-	2.20%	130,000	-	-	3.0000	18,000
2025	-	-	-	-	2.55%	135,000	-	-	-	-
2026	-	-	-	-	2.55%	140,000	-	-	-	-
2027	-	-	-	-	2.55%	140,000	-	-	-	-
		<u>\$ 100,000</u>		<u>\$ 85,000</u>		<u>\$ 610,000</u>		<u>\$ 930,000</u>		<u>\$ 158,000</u>
										<u>\$ 1,883,000</u>

Year Ending June 30,	Revenue Notes									
	Sewer		Sewer		Sewer		Sewer		Sewer	
	Issued Dec 12, 2003		Issued Dec 12, 2003		Issued Sept 15, 2002		Issued Sept 15, 2002		Issued Sept 15, 2002	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2015	1.75%	\$ 27,000	1.75%	\$ 27,000	1.75%	\$ 106,000	1.75%	\$ 106,000	1.75%	\$ 133,000
2016	1.75%	28,000	1.75%	28,000	1.75%	110,000	1.75%	110,000	1.75%	138,000
2017	1.75%	29,000	1.75%	29,000	1.75%	113,000	1.75%	113,000	1.75%	142,000
2018	1.75%	30,000	1.75%	30,000	1.75%	116,000	1.75%	116,000	1.75%	146,000
2019	1.75%	30,000	1.75%	30,000	1.75%	120,000	1.75%	120,000	1.75%	150,000
2020	1.75%	31,000	1.75%	31,000	1.75%	123,000	1.75%	123,000	1.75%	154,000
2021	1.75%	32,000	1.75%	32,000	1.75%	127,000	1.75%	127,000	1.75%	159,000
2022	1.75%	33,000	1.75%	33,000	1.75%	131,000	1.75%	131,000	1.75%	164,000
2023	1.75%	34,000	1.75%	34,000	1.75%	135,000	1.75%	135,000	1.75%	169,000
		<u>\$ 274,000</u>		<u>\$ 274,000</u>		<u>\$ 1,081,000</u>		<u>\$ 1,081,000</u>		<u>\$ 1,355,000</u>

See accompanying independent auditors' report

See accompanying independent auditors' report

City of Audubon  
Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds  
For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Receipts:</b>										
Property tax	\$ 661,079	761,984	769,268	826,772	697,584	591,287	502,392	450,807	567,388	533,115
Tax increment financing collections	96,274	43,609	44,681	46,293	128,054	31,636	84,848	144,011	33,901	150,445
Other city tax	208,329	239,838	213,956	230,636	213,365	219,178	204,702	175,273	180,157	224,224
Licenses and permits	2,106	1,562	2,649	2,157	793	466	508	1,583	3,307	2,203
Use of money and property	19,984	20,799	19,717	20,832	27,359	38,248	84,618	58,501	47,753	20,597
Intergovernmental	284,177	251,864	293,306	542,684	447,545	562,377	600,094	254,803	247,524	265,004
Charges for service	244,713	249,426	244,848	243,148	229,816	209,538	196,688	202,272	198,176	196,781
Special assessments	3,807	3,977	4,645	942	6,007	4,260	20,706	31,377	12,686	11,118
Miscellaneous	74,855	85,270	100,421	55,676	95,015	106,178	120,924	165,709	93,564	247,728
<b>Total</b>	<b>\$ 1,595,324</b>	<b>1,658,329</b>	<b>1,693,491</b>	<b>1,969,140</b>	<b>1,845,538</b>	<b>1,763,168</b>	<b>1,815,480</b>	<b>1,484,336</b>	<b>1,384,456</b>	<b>1,651,215</b>
<b>Disbursements:</b>										
<b>Operating:</b>										
Public safety	\$ 544,006	363,821	403,733	350,822	340,427	345,091	487,808	350,862	296,651	343,759
Public works	736,329	776,945	729,120	693,929	859,937	1,031,742	913,310	606,413	553,816	579,262
Health and social services	1,000	1,000	1,000	-	-	-	1,000	1,000	1,000	1,000
Culture and recreation	361,476	276,730	273,275	247,277	240,922	260,750	265,913	264,595	326,173	289,370
Community and economic development	91,359	49,155	55,436	51,097	43,488	33,881	166,893	159,517	41,794	32,098
General government	114,714	119,546	137,824	302,957	83,128	87,854	89,177	137,370	86,480	108,560
Debt service	200,914	174,547	250,565	253,030	255,225	240,332	114,576	23,635	204,845	207,450
Capital projects	211,210	309,226	-	-	7,656	361,926	1,107,220	-	-	65,281
<b>Total</b>	<b>\$ 2,261,008</b>	<b>2,070,970</b>	<b>1,850,953</b>	<b>1,899,112</b>	<b>1,830,783</b>	<b>2,361,576</b>	<b>3,145,897</b>	<b>1,543,392</b>	<b>1,510,759</b>	<b>1,626,780</b>

See accompanying independent auditors' report

**City of Audubon**



Diane McGrain, CPA  
Jim Menard, CPA

November 18, 2014

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Audubon, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 18, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Audubon's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Audubon's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Audubon's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Audubon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-14 and I-B-14 to be material weaknesses.

Continued...

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Audubon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### City of Audubon's Responses to Findings

City of Audubon's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. City of Audubon's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Audubon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schroer & Associates, PC*

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2014

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

**I-A-14    Segregation of Duties**

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The same person does the utility billing, cash receipts listing, bank deposits and posting of cash receipts to utility accounts. Controls over cash receipts at the swimming pool are minimal.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this. Utility customers pay mostly by check and will question if a payment is not correctly posted to their account.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel.

**I-B-14    Financial Reporting**

Comment – During the audit, we identified duplicate receipts posted to the ledger in the month of June. We determined library transactions and payroll transactions were not posted to the ledger for the months of March through June. Bank balances also did not reconcile to fund balances at the end of the year. Also, a listing of outstanding items was not printed with the bank reconciliation.

Recommendation – The City should implement procedures to ensure all receipts are only recorded once, and all disbursements are recorded in the City's financial statements. The City should also ensure the bank reconciliations tie to the fund balance.

Response – We will double check this in the future to avoid posting errors, and reconcile the bank to the fund balance regularly.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2014

**Part II: Other Findings Related to Statutory Reporting:**

II-A-14      Certified Budget

Comment - Disbursements during the year ended June 30, 2014, exceeded the amended budgeted amounts in the public safety, culture and recreation, community and economic development, debt service, and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-B-14      Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-14      Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-14      Business Transactions

No business transactions were noted between the City and City officials or employees.

II-E-14      Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2014

**Part II: Other Findings Related to Statutory Reporting - Continued:**

II-F-14      Council Minutes

Comment - Two transactions in the months of May and June, out of the forty-five transactions tested for the year, were not approved in the Council minutes.

Four invoices in the month of June, out of the forty-five transactions tested for the year, were not cancelled to prevent duplicate payment. Also, one library disbursement was supported by a photocopied invoice rather than the original invoice.

Although minutes of City Council proceedings were published, the list of claims allowed with descriptions, and total receipts and disbursements by fund, were not published for the months of May and June. Also, the May minutes were not signed.

It was noted in the minutes that the Audubon County Attorney addressed the Council about the failure to observe the open-meetings law as required by Chapter 21 of the Code of Iowa.

During the appointment of a new City Clerk, a Council Member did not abstain from voting, although the spouse of an applicant was the Council Member's employee.

Recommendation – The City should review procedures to ensure all claims are approved by the Council, all invoices are cancelled, and all invoices are supported by original documentation.

The City should comply with Chapter 21 of the Code of Iowa and should publish claims, disbursements and receipts as required.

Council Members should abstain from voting when a conflict of interest exists.

Response – We have since attended training on open meeting laws. We will comply with the Code requirements for closed sessions and publish all required items. We will review procedures to ensure all transactions are properly supported, approved and invoices cancelled. Council Members will abstain from voting in the future when a conflict of interest exists.

Conclusion – Response accepted.

II-G-14      Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-14      Revenue Note

No instances of non-compliance with the revenue bond resolution were noted.

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2014

**Part II: Other Findings Related to Statutory Reporting - Continued:**

II-I-14      Financial Condition

Comment – At June 30, 2014, the City has the following deficit fund balances:

Special Revenue Fund:	
Road Use	17,916
Urban Renewal Tax Increment	278,280
Debt Service	<u>76,365</u>
	\$ <u>372,561</u>

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits.

Response – We will eliminate the deficits with road use tax tax increment financing collections, and funds transfers.

Conclusion – Response accepted.

II-J-14      Excess Balances

Comment – The balances in the Special Revenue Fund, Local Option Sales Tax Account, the Capital Projects Fund, and the Enterprise Fund, Water Account at June 30, 2014, were in excess of the accounts' disbursements for the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We plan to utilize the funds in the Local Option Sales Tax Accounts for street related expenses and the funds in the Capital Projects Fund for future capital projects.

Conclusion – Response accepted.

II-K-14      City Code

Comment – In accordance with Chapter 380.8(2) of the Code of Iowa, at least once every five years, a City shall compile a City Code containing all of the city ordinances in effect except trade, bond, zoning ordinances, and ordinances vacating streets and alleys. The City has not re-codified its City Ordinances in more than five years.

Recommendation – The City should re-codify City Ordinances.

Response – We are in the process of re-codifying city Ordinances.

Conclusion – Response accepted.

City of Audubon  
Schedule of Findings  
Year Ended June 30, 2014

**Part II: Other Findings Related to Statutory Reporting - Continued:**

II-L-14      Library Payroll Tax Reports

Comment – Library wages for the 2<sup>nd</sup> quarter of 2014 were reported in error under the City's federal identification number on a combined Form 941 rather than under the Library's federal identification number.

Recommendation – A separate identification number exists for the Library and Library wages should be reported under this federal identification number on a separate Form 941 from the City's.

Response – We will report Library wages on a separate payroll tax report in the future.

Conclusion – Response accepted.

II-M-14      Credit Card Policy

Comment – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, as a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – We will adopt a formal written credit card policy.

Conclusion – Response accepted.

II-N-14      Urban Renewal Annual Report

The urban renewal annual report was approved and certified to the Iowa Department of Management on or before December 1. No discrepancies were noted.